



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PPD 730.5.3.1

September 24, 2003
03-PPD-065(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Audit Guidance on Audits of Selected Cost Management Reports Submitted by Contractors Without Earned Value Management (EVM) Covered Contracts

Summary

This MRD provides guidance on audits of selected cost management reports submitted by contractors who do not have contracts containing earned value management (EVM) reporting requirements, and transmits a revised audit program, audit report shell, and tailored APPS risk assessment working papers (W/Ps B and B-2) for use in performing these audits. The audit guidance in this memorandum, as well as the enclosed audit programs, audit report shells, and tailored APPS risk assessment working papers are effective upon receipt of this memorandum. MRD 03-OWD-041(R), dated July 28, 2003 contained FY 2004 planning guidance relative to audits of selected cost management reports submitted by contractors without EVM reporting requirements.

Background

DoD contract cost management reporting requirements such as the Cost Performance Reports (CPRs), Cost/Schedule Status Reports (C/SSRs), and Contract Funds Status Reports (CFSRs) were contained in DoD 5000.2-R, Subpart 7.15.7, "Contract Management Reports" until October 30, 2002. On October 30, 2002, DoD Directive 5000.1 and DoD Instruction 5000.2 were canceled and replaced with interim guidance. DoD 5000.2-R was converted from regulation to non-mandatory guidance and is now referred to as the Interim Defense Acquisition Guidebook. In May 2003, DoD Directive 5000.1 and DoD Instruction (DoDI) 5000.2 were reissued. Under the reissued DoD Directive 5000.1 and DoDI 5000.2, cost management reporting using the CPR, C/SSR, and CFSR is no longer mandatory, but rather at the discretion of the contracting officials. DCAA audit effort related to the CPR, C/SSR, and CFSR at contractors who do not have contracts containing EVM reporting requirements primarily involves the evaluation of contractor financial records to validate the accuracy and propriety of reported data.

As a result of the DoD policy changes described above, we have streamlined the audit requirements relative to CPRs, C/SSRs, and CFSRs. We have removed the requirement to audit the first CPR or C/SSR submitted on a contract. We have also revised the requirements relative to periodic, self-initiated audits of the contractor's policies and procedures for

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accumulation of data and preparation of CPRs, CSSRs, and/or CFSRs to require those audits only when warranted based on risk.

Audit Guidance

Audit Requirements

A risk assessment should be performed during the annual program planning process for each contractor without EVM-covered contracts, but with contracts containing CPR, CSSR, and/or CFSR reporting requirements. The risk assessment considers (1) the number of contracts containing CPR, C/SSR, or CFSR reporting requirements, (2) sensitive or high risk contracts or conditions identified by the ACO, and (3) the expected volume of covered contract reports where an audit will be requested. The risk assessment is used to determine whether to perform a self-initiated audit of the contractor's policies and procedures for accumulation of data and preparation of CPRs, CSSRs, and/or CFSRs, as well as selectively testing financial data contained in them.

Audits of individual CPR, C/SSR, or CFSR reports may be requested by the contracting officer. The contracting officer may also request an audit, prior to the award of a contract under which CPR, C/SSR, or CFSR requirements are contemplated, to determine if the contractor's management system and procedures are adequate and reliable for accumulating and reporting actual costs (cumulative expenditures for CFSR) and for estimating contract completion costs. Audits of CPRs, CSSRs, and/or CFSRs at contractors who do not have contracts containing EVM reporting requirements will be performed under activity code 17850.

Audit Procedures and Reporting

As discussed above, an audit of the contractor's management system and procedures relative to CPRs, C/SSRs, and CFSRs may be required, either based on a specific request from the contracting officer or based on the risk assessment described above. In these circumstances, the auditor should evaluate the contractor's policies and procedures for developing and reporting actual and projected costs in the CPRs, C/SSRs, and CFSRs to ensure the system will produce accurate data that complies with contractual reporting requirements.

Auditors should use the procedures in the attached audit program to perform audits of individual CPR, C/SSR, or CFSR reports requested by the contracting officer. Also use the procedures in the attached audit program to selectively test financial data contained in the CPRs, CSSRs, and/or CFSRs submitted by the contractor based on the risk assessment described above.

The attached audit program was previously available in APPS under activity code 17860, but will be available under activity code 17850 in future APPS releases. The audit program has been revised to clarify and expand the audit steps to be performed when performing audits of cost management reports at contractors without EVM reporting requirements. We have also

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developed and attached proforma tailored risk assessment working papers (W/Ps B and B-2) for use in performing the audits under activity code 17850. Audit reports should be prepared using the attached audit report shell and the guidance contained in CAM 10-1200.

The revised audit program, audit report shell, and proforma tailored risk assessment working papers will be included in the October 2003 APPS release, but are effective with the receipt of this memorandum.

Closing Remarks

Field audit office personnel should refer questions regarding this memorandum to their regional offices. Regions unable to answer, or with questions of their own, should contact Ms. Victoria Post, Program Manager, Policy Programs Division, at (703) 767-2270 or email at DCAA-PPD@dcaa.mil.

/Signed/

Robert DiMucci
Assistant Director
Policy and Plans

Enclosures: 5

1. Activity Code 17850 Audit Program (17850_AP_CPR_CSSR_CFSR.doc)
2. Activity Code 17850 Audit Report Shell (17850_AR_CPR_CSSR_CFSR.doc)
3. Activity Code 17850 W/P B (17850 WP B.doc)
4. Activity Code 17850 W/P B-2 - Contractor with ICAPS (17850 WP B-2 Contractor with ICAPS.doc)
5. Activity Code 17850 W/P B-2 - Contractor with ICQ (17850 WP B-2 Contractor with ICQ.doc)

DISTRIBUTION: C

Master Document – Audit Program (APCPR-CSSR)

Activity Code 17850		CPRs, C/SSRs, and CFSRs
Version 2.0, dated September 2003		
B-1	Planning Considerations	
Purpose:		
<p>This audit program is for evaluating contractor policies and procedures for accumulating data and preparing Cost Performance Reports (CPRs), Cost/Schedule Status Reports (C/SSRs), and Contract Fund Status Reports (CFSRs) at contractors who do not have any contracts containing Earned Value Management System (EVMS) requirements. This audit program may also be used, modified as appropriate, to perform requested audits of individual contract cost reports submitted by contractors who do not have any contracts containing EVMS requirements. Audit effort expended to evaluate CPRs, C/SSRs, or CFSRs at EVMS-covered contractors should be performed under activity code 17750, EVM System and Report Surveillance, or activity code 17760, EVM Report Surveillance (Report Only).</p>		
<p>This program provides a logical sequence to the audit effort, and should reflect a mutual understanding between the auditor and the supervisor as to the scope required to meet auditing standards and DCAA objectives for the current assignment. The audit steps in the program are general guidance and should be modified as considered necessary to fit the current audit. Those steps not required should be marked "not applicable" (N/A), lined through, or deleted, as appropriate for your FAO. Portions of the audit which are covered in other assignments (e.g., audits of billing system, budgeting system, progress payments, MMAS, estimating system) should be referenced at the appropriate place in this program.</p>		
<p>The primary objective of the CPR or C/SSR is to provide performance measurement and summarized cost and schedule performance status information on covered contracts. The primary purpose of the CFSR is to provide information about contract funding requirements on covered contracts. DoD reporting requirements such as the CPRs, C/SSRs, and CFSRs are specified in DD Form 1423, Contract Data Requirements List, contained in the contract.</p>		
<p>The purpose of the audit is to evaluate the contractor's policies and procedures for the accumulation and reporting of CPR, C/SSR, and/or CFSR data and to test the accuracy and propriety of reported information.</p>		
Scope:		
<p>The scope of the audit will depend on the contractor's financial condition and how much reliance can be placed on the accounting system, internal controls, cost representations, and billing procedures. If the results of prior audits and the preliminary audit steps indicate low audit risk, audit scope should be reduced accordingly. This decision must reflect a mutual understanding between the auditor and supervisor as to the scope required to meet auditing standards and DCAA objectives for the current assignment. This program does not replace individual auditor</p>		

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judgment and may be supplemented to satisfy the needs of a particular assignment.
References: (Should be reviewed prior to starting the audit)
CAM 11-300, Audit of Contractor Compliance with DoD Program Management Systems Reporting Requirements.

B-1	Preliminary Steps	WP Reference
	Version 2.0, dated September 2003	
	1. When performing a programmed audit of CPR/CSSR/CFSR policies and procedures, obtain and review the risk assessment prepared during the development of the program plan to identify:	
	a. ACO identified sensitive or high risk conditions or contracts.	
	b. The number of contracts containing reporting requirements.	
	2. Determine whether the contractor's policies and procedures for developing and reporting actual and projected costs in the CPRs or C/SSRs have previously been evaluated and accepted.	
	3. Review the following documents/items:	
	a. A list of all performance measurement reports, and related reports, submitted in response to the data requirements list (DD Form 1423) contained in covered contracts.	
	b. Contractor policies and procedures for preparing CPRs, C/SSRs, and CFSRs.	
	4. Contact the contract management office/program office and discuss the planned audit.	
	5. Document the need for technical assistance. Request any required technical assistance	
	6. Review the permanent files and audit leads to obtain background information and identify potential CPR, C/SSR, or CFSR deficiencies and high risk contracts to help establish the scope of audit.	
	7. Understanding and Evaluating the Contractor's Internal Control Structure	
	a. Review relevant Internal Control Audit Planning Summaries (ICAPS) (or ICQ for nonmajor contractor where ICAPS have not been completed) to obtain and document an understanding of the estimating system and any other applicable internal control systems	

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the contractor may have (e.g., labor, MMAS). Identify any deficiencies that would impact the audit.	
b. If the contractor is classified as non-major (where ICAPS have not been completed) and if the evidential matter to be obtained during the audit is highly dependent on computerized information systems, document on working paper B-2 the audit work performed that supports reliance on the computer-based evidential matter. Specifically, document or reference one or more of the following in working paper B-2:	
(1) the audit assignment(s) where the reliability of the data was sufficiently established in other DCAA audits,	
(2) the procedures/tests that will be performed in this audit to evaluate the incurred costs that will also support reliance on the evidential matter, and/or	
(3) the tests that will be performed in this audit that will be specifically designed to test the reliability of the computer-based data.	
When sufficient work is not performed to determine reliability (i.e., reduce audit risk to an acceptable level), qualify the audit report in accordance with CAM 10-210.4 and 10-1204.4.	
8. In planning and performing the examination, review the fraud risk indicators specific to the audit. The principal sources for the applicable fraud risk indicators are:	
<ul style="list-style-type: none"> Handbook on Fraud Indicators for Contract Auditors, Section II (IGDH 7600.3, APO March 31, 1993) located at www.dodig.osd.mil/PUBS/index.html, and. 	
<ul style="list-style-type: none"> CAM Figure 4-7-3 	
Document in working paper B any identified fraud risk indicators and your response/actions to the identified risks (either individually or in combination). This should be done at the planning stage of the audit, as well as during the audit if risk indicators are disclosed. If no risk indicators are identified, document this in working paper B.	
9. For an audit of CPR, C/SSR, and CFSR policies and procedures and testing of report data, select the sample of contract cost reports to test.	
10. Arrange and conduct an entrance conference with the contractor's personnel responsible for the CPR,C/SSR, and CFSR reports.	
11. Summarize the results of the risk assessment and preliminary audit steps and clearly identify the planned scope of audit.	

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C-1	Policies and Procedures	WP Reference
Version 2.0, dated September 2003		
NOTE: This section only applies if the annual program plan risk assessment determines that an evaluation of policies and procedures is required.		
If not previously evaluated and accepted, evaluate the contractor's policies and procedures for developing and reporting actual and projected costs in the CPRs, C/SSRs, and CFSRs to ensure the system will produce accurate data that complies with contractual reporting requirements.		

D-1	Evaluation of Reports	WP Reference
Version 2.0, dated September 2003		
1. Review the CPRs, C/SSRs, and/or CFSRs selected for evaluation and verify the mathematical accuracy.		
2. Review the selected reports for compliance with contractual requirements, such as reporting due dates, format, and content.		

E-1	Reconciliations	WP Reference
Version 2.0, dated September 2003		
1. Obtain and review the contractor's reconciliation of the CPR, C/SSR, and/or CFSR to the contractor's cost ledgers. Selectively trace the reported data to the contractor's job cost ledgers.		
2. Reconcile the CPR or C/SSR to the CFSR(if these reports are required) using the guidance in "CPR-CSSR-Reconciliation of Cost Reports" document located in Other Audit Guidance.		
3. Reconcile the CPR, C/SSR, and/or CFSR to reports prepared by the contractor for other purposes, such as quarterly limitation on payment statements, progress payment requests, and public vouchers.		
4. Request the contractor to explain any differences between the CPR or C/SSR, the CFSR, the cost ledgers, and the other reports. Differences that cannot be explained are indicators of significant internal control deficiencies in the cost accounting system and/or the performance measurement system.		
5. Immediately advise the contractor and the contract administration office of any system deficiencies and report the condition using the guidance in CAM 11-304.4 (for audits of CPRs), CAM 11-305.4 (for audits of C/SSRs), and CAM 11-303.5 (for audits of CFSRs).		

F-1	Estimated Cost at Completion (EAC)	WP Reference
	Version 2.0, dated September 2003	
	1. Determine whether the EAC used by the contractor was a "bottoms-up" EAC or was formula driven. Refer to the contractor's system description document to determine the required frequency of "bottoms-up" EACs.	
	2. Confirm that data utilized in the EAC was prepared and approved by the responsible individual as defined in the system description document. Normally, someone such as the Cost Account Manager prepares the data.	
	3. Verify that reasons for revisions to the EAC are fully documented and based on verifiable data.	
	4. Determine if the EAC appears reasonable when compared to projections using trend analysis techniques:	
	Note: DCMA frequently evaluates reported EACs using similar trend analysis techniques. Do not duplicate analyses available from the CMO or Program Office.	
	a. Graphically plot the cumulative to date Budgeted Cost of Work Scheduled (BCWS), Budgeted Cost of Work Performed (BCWP), and Actual Cost of Work Performed (ACWP), from the CPR or C/SSR on a monthly basis. Compare to identify unusual fluctuations (positive and negative) and trace to the cost account level to identify the underlying reasons (see "CPR-CSSR-Trend Analysis" document located in Other Audit Guidance).	
	b. Project the EAC using Cost Performance Indices (CPI)s and Schedule Performance Indices (SPI)s as explained in "CPR-CSSR-Trend Analysis" document located in Other Audit Guidance.	
	c. Significant differences between the EACs projected using the CPI and SPI and the contractor's "bottoms-up" ETC/EAC may indicate serious problems in the contractor's estimates and/or system and must be thoroughly investigated.	
	d. Discuss these differences with the contractor, the surveillance monitor, and the program office, and request an explanation for the difference.	
	e. If the difference is not explained to the satisfaction of the auditor, request a technical evaluation on the items in question.	
	5. Evaluate the reasonableness of the contractor's "bottoms-up" ETC/EAC using the guidance in CAM 9-300.	
	a. Verify that the contractor has been consistent in its ETC/EAC	

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preparation.	
b. Verify that the contractor has used appropriate rates and factors.	
c. Review the quantitative and qualitative aspects of the EAC for reasonableness utilizing government technical assistance if considered necessary.	

G-1	Variance Analysis	WP Reference
Version 2.0, dated September 2003		
To ensure timely and responsible actions are taken by the contractor to identify causes and minimize the impact on contract performance:		
1.	Review schedule and cost variances disclosed in the CPRs or C/SSRs and contractor comments on significant problem areas, reasons for those variances, their impact on the program, and corrective action taken or to be taken.	
2.	If appropriate, coordinate with the surveillance monitor, government program manager, technical specialists, etc., to assess impact of schedule slippage and problems in technical performance.	
3.	On a sampling basis, select areas of significant cost variances and trace to the required action level.	
4.	Determine if narrative descriptions provided by the contractor are valid and adequate. Discuss causes and proposed remedies with the contractor to assess responsiveness of proposed actions.	
5.	Determine if the impact of any existing variances are reflected in the estimate to complete the contract.	

A-1	Concluding Steps	WP Reference
Version 2.0, dated September 2003		
1.	Discuss the audit findings with the supervisor and hold an exit conference (follow the guidance in CAM 4-304.4).	
2.	Discuss the findings with the ACO to ensure all pertinent information has been considered.	
3.	Complete indexing and cross-reference working papers	
4.	Draft Report (CAM 10-1200 and 11-202.5 for CFSR audits, 11-304.4 for CPR audits, and/or 11-305.4 for C/SSR audits).	



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a. The report should fully describe any significant unresolved deficiencies together with recommendations for their correction.	
b. When an assist audit and/or a technical evaluation is necessary, and is not obtained, the Qualifications paragraph should be used to qualify the results of audit for the nonreceipt of such reports (CAM 10-1204.4).	
5. If the auditor has encountered information that constitutes evidence or raises suspicion that fraud or other illegal acts have occurred, refer such suspicion by completing a DCAA Form 2000 (see CAM 4-702.4 and 5).	
6. Supervisory Review.	
7. Complete administrative working papers and update permanent files (ICAPS, MAARs, CAS, etc.).	
8. Closing actions should be performed in accordance with FAO procedures. These procedures may require either auditors or administrative personnel to perform various closing steps. Completion of these closing actions should be documented (e.g., by initials and date on the CD or working paper folder, etc.) and should include:	
a. Once an audit report is signed, the electronic document should immediately be modified to indicate who signed it, and it should be password protected. The electronic file should then be renamed according to the convention “01 DCAA Report [RORG-ASSIGNMENT NO.] – Final.doc” and changed to a read-only file. Only this file should be stored, transmitted, or otherwise used for official purposes.	
b. Once the report is signed, the signature page of the audit report must be scanned in accordance with Agency standard scanning instructions. For audit packages, the scanned signature page file should be named the same as the audit report (see above) with “-sig” added (i.e., 01 DCAA Report 01101-2002X10100389 – Final-sig.tif). There is no requirement to make the file a part of the APPS generated executable file and it may be included separately on the CD containing the APPS generated executable file.	
c. Ensure an electronic copy of the final draft audit report containing the supervisory auditor’s initials and date on the top page, cross-referenced to the working papers, is included in the working paper package. The final draft report should include all substantive changes made to the original draft, with cross-referencing updated as necessary. It should differ from the final report only due to minor administrative changes (spelling, format, etc.) made during final processing.	
d. Include an electronic version of the acknowledgement letter in the audit working paper package.	

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e. Ensure all working paper files are "read only" and, if necessary, compressed for final storage. Generally, current Agency software should be used to automatically modify all electronic files for storage.	
f. Two complete sets of electronic working papers must be prepared. The "original" set should be stored in the working paper package. The "archive" set is to be stored separately from the working paper package on a single session CD-ROM. If there will be a short-term need to access the working papers, a third, or "working" set should be stored so as to be available for reference, generally on the LAN. This set should be deleted when no longer needed.	
g. Verify that electronic files stored on removable media are not corrupted and can be unarchived.	
h. Securely enclose the “original” set of electronic files in the working paper package.	

Version No. 2.0	Evaluation of CPRs, C/SSRs or CFSRs Audit Report (17850)	September 2003
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	DEFENSE CONTRACT AUDIT AGENCY	
	AUDIT REPORT NO. –	

[date]

PREPARED FOR:

ATTN:

,

PREPARED BY: DCAA

,

Telephone No.
FAX No.
E-mail Address

SUBJECT: Report on Audit of *[Contractor Policies and Procedures for the Preparation of Cost Performance Report(s), Cost/Schedule Status Report(s), and Contract Fund Status Reports]* and/or *[Cost Performance Report(s), Cost/Schedule Status Report(s), and/or Contract Fund Status Report(s) dated(date)]*

REFERENCES: *If applicable, include appropriate references, such as contract number.*

CONTRACTOR:

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REPORT RELEASE RESTRICTIONS: See Page 8

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Contractor Organization and Systems
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SUBJECT OF AUDIT

If the audit combines an evaluation of the contractor's CPR/CSSR/CFSR policies and procedures and a review of the accuracy of cost reports submitted by the contractor, use the following subject of audit, modified as appropriate.

[As requested by your memorandum dated xxx or as part of our continuing surveillance of] (), we examined [contractor's name or short name] policies and procedures for the preparation of cost performance reports (CPRs), cost/schedule status reports (C/SSRs), and contract fund status reports (CFSRs). The purpose of the examination was to determine if the contractor's policies and procedures provide for valid and timely management information and comply with the contractual requirements; and to test the accuracy and reliability of the financial data contained in the contract cost reports prepared from the contractor's system.

[Contractor name] is responsible for establishing and maintaining policies and procedures that comply with the contractual requirements and provide accurate and reliable data. Our responsibility is to express an opinion on the accuracy and reliability of the financial data contained in the cost reports based on our examination.

[For reports on requested audits of individual cost reports, use the following subject of audit, modified as appropriate.]

In response to your [date] request, we examined the financial data contained in [contractor's name, or short name] [Cost Performance Report (CPR), Cost/Schedule Status Report (C/SSR), or Contract Fund Status Report (CFSR)] as of [as of date] dated [date], under [contract number.] The purpose of the examination is to determine the accuracy and reliability of the financial data contained in the [CPR, C/SSR, or CFSR]

[Contractor name] is responsible for preparing accurate [CPRs, C/SSRs, or CFSRs]. Our responsibility is to express an opinion on the financial data contained in the [CPR, C/SSR, or CFSR] based on our examination.

EXECUTIVE SUMMARY

This section gives a brief overview of the audit findings. It briefly describes the audit opinion, recommendations, and the significant issues supporting the opinion. Refer to 10-1204.2, 10-210.2 and 10-304.2 for examples.

SCOPE OF AUDIT

Except for the qualifications discussed below, [omit if the report is not rendering a qualified opinion and there is no "Qualifications" section within the "Scope" paragraph], we conducted our examination in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the examination to obtain

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reasonable assurance about whether the data and records are free of material misstatement. An examination includes:

- evaluating the contractor's internal controls, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment;
- examining, on a test basis, evidence supporting financial and accounting data related to the *[cost performance report(s), cost/schedule status report(s), and/or contract fund status report(s)]*;
- assessing the accounting principles used and significant estimates made by the contractor;
- evaluating the overall data and records presentation; and
- determining the need for technical specialist assistance [and quantifying the results of a government technical evaluation].

We evaluated the reported costs using the applicable requirements contained in:

- Federal Acquisition Regulation (FAR),
- Defense FAR Supplement (DFARS),
- Cost Accounting Standards (CAS), and
- Contract Data Requirements List Item No. XX

During our examination, we tested the financial data contained in the following contract cost reports generated by the contractor's system *[omit for reports on requested audits of individual cost reports]*:

- [Contract No.], [type of cost report] dated [date];
- [Contract No.], [type of cost report] dated [date];
- [Contract No.], [type of cost report] dated [date], and
- [Contract No.], [type of cost report] dated [date]

[Summarize the contractor's internal control systems for the audit area being reviewed, using the guidelines provided in CAM 10-210-3f].

We believe that our examination provides a reasonable basis for our opinion. The scope of our examination reflects our assessment of control risk and includes audit tests designed to provide a reasonable basis for our opinion.

QUALIFICATIONS:

[Any factors that restrict or limit the scope of the audit should be clearly described. Identify any circumstances encountered which have a significant adverse effect on the audit or results. (See 10-1204.4 and 10-210.4).]

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RESULTS OF AUDIT

[This section summarizes the audit findings and gives an opinion as to whether the policies and procedures, if evaluated in this review, are adequate, and whether the CPR(s), C/SSR(s), and/or CFSR(s) evaluated are accurate and supported by the contractor's books and records. This section also describes in detail any significant issues supporting the audit opinion. This section should summarize the conditions and recommendations found during the audit. The results related to the evaluation of the policies and procedures, if evaluated in this review, should be reported consistent with the guidance in 10-400. The results related to the CPR, C/SSR, and/or CFSR reports should be presented in exhibit format and should include explanatory notes in the structured note format, consistent with the guidance at 10-210.6. Refer to 10-1204.5 for additional information.]

[Conclude the Results of Audit section of the report narrative with the following additional remarks, as appropriate.]

We discussed the results of our examination with [Name and Title of contractor representative] in an exit conference held on [Date]. [If there are deficiencies, summarize the contractor's reaction here]. [If the evaluation requires a Statement of Conditions(s) and Recommendation(s) be furnished to the contractor, include the following statement]. We provided a draft copy of the [Results of audit and Statement of conditions(s) and Recommendation(s)] to the contractor's representative at the exit conference. [When the contractor provides a formal, written response, it should be referenced within the Results of audit section and included as an appendix to the report. Put any rebuttals in the "Auditor's Response" portion of the explanatory notes and include the following statement.]. The complete text of the contractor's response appears as Appendix [X].

[Use the guidelines provided in 10-210.5e(2) to prepare any other additional remarks.]

[If required by CAM 10-210.5e(1)(c), include the following statement immediately following the exit conference note:]

We provided a draft copy of [the Report] or [the Results of Audit] or [the Statement of Condition and Recommendation] and/or [Other (describe)] to the contractor's representative at the exit conference.

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CONTRACTOR ORGANIZATION AND SYSTEMS

[This section should furnish pertinent information necessary for the reader to understand the area reviewed. This information should be classified under separate subheadings for the organization and individual system(s). Refer to 10-1204.6 and 10-210.7 for additional information and examples.]

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Audit Report No. -

DCAA PERSONNEL

Telephone No. _____

Primary contacts regarding this audit:

, Auditor

, Supervisory Auditor

Other contacts regarding this audit report:

, Branch Manager

, Financial Liaison Advisor

FAX No. _____

, Financial Liaison Advisor

E-mail Address _____

General information on audit matters is available at <http://www.dcaa.mil/>.

RELEVANT DATES

[Use this section in demand assignments. The section should include, at a minimum, the dates of ACO and PCO requests and the dates of any extensions. The format should facilitate computation of elapsed days (see 10-211 and Fig. 10-2-3).]

AUDIT REPORT AUTHORIZED BY:

[Title]
DCAA

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AUDIT REPORT DISTRIBUTION AND RESTRICTIONS

DISTRIBUTION

[All recipients of the audit report will be identified in this section of the report, include e-mail addresses. See 10-412 and 10-212 for additional information. In addition, See 11-304.4c and 11-305.4c for circumstances when a copy of the report should be sent to Headquarters, ATTN: PPD.]

E-mail Address

ATTN:

,

,
(Copy furnished thru ACO)

ATTN:

Telephone

,

RESTRICTIONS

1. Information contained in this audit report may be proprietary. It is not practical to identify during the conduct of the audit those elements of the data, which are proprietary. Make proprietary determinations in the event of an external request for access. Consider the restrictions of 18 U.S.C. 1905 before releasing this information to the public.

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2. Under the provisions of Title 32, Code of Federal Regulations, Part 290.7(b), DCAA will refer any Freedom of Information Act request for audit reports received to the cognizant contracting agency for determination as to releasability and a direct response to the requestor.
3. Do not use the information contained in this audit report for purposes other than action on the subject of this audit without first discussing its applicability with the auditor.

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APPENDIXES

[Use as appropriate. Refer to 10-409c for additional information.]

[NOTE: For Real Time Reporting (Flash Audit Reports) refer to 10-413.]

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[Contractor Name]
[City, ST]

Proforma Workpaper CPR/CSSR/CFSR Audit
REVIEW OF RELEVANT INTERNAL CONTROL DATA

Summary of Risk Assessment/Preliminary Audit Steps

1. Audit Report Paragraph on Internal Controls/Control Risk:

Document your understanding of internal controls on w/p B-2 (preliminary audit step 7 from w/p B-1). Based on the audit work documented on w/p B-2, prepare the audit report paragraph describing how the contractor's systems of internal controls and the auditor's assessment of control risk affect the scope of audit (CAM 10-210.3 and 10-1204.3).

2. Materiality and Sensitivity:

Document below significant materiality and sensitivity factors (such as contract type, dollar value, coordination with the customer, selection of contracts for testing, etc.). Where the identified risk factor will affect the submission being audited, document in Section 6 below the impact on the scope of audit for the policies and procedures or reports being audited. (This summarizes completion of preliminary audit steps 4 and 9 from w/p B-1.)

3. Inherent Risk Assessment:

Document below significant inherent risk factors (such as prior audit findings, prior evaluation of policies and procedures, prior government contract experience, type of ownership of company, financial condition, accounting changes, CAS compliance, etc.). Where the identified risk factor will affect the submission being audited, document in Section 6 below the impact on the scope of audit for the policies and procedures or reports being audited. (This summarizes completion of preliminary audit steps 2, 3, and 6 from w/p B-1.)

4. Fraud Risk Assessment:

Document below any identified fraud risk indicators and your response/actions to those identified risk indicators (either individually or in combination). If no risk indicators are identified, document this below. (This documents completion of preliminary audit step 8 from w/p B-1.)

B (1/3)

Auditor:	
Date:	

Enclosure 3

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5. Results of Other Preliminary Audit Steps:

Identify other areas of risk disclosed resulting from the other preliminary risk assessment procedures (e.g., review of program plan risk assessment, assessment of the need for technical assistance, preliminary coordination with the contractor, etc.). (This summarizes completion of preliminary audit steps 1, 5, and 10 from w/p B-1.)

6. Results of Risk Assessment/Preliminary Audit Steps & Scope of Audit

Based on completing steps 1-5 above, document the scope of audit to be performed. For risk factors identified, reference where the risk factor is documented (i.e., steps 1-5, above) and describe the impact on the audit scope. (This summarizes completion of preliminary audit step 11 from w/p B-1)

a. Evaluation of Policies and Procedures

Describe the nature and extent of testing of CPR, C/SSR and CFSR policies and procedures to be performed in the audit based on the risk assessment.

b. Testing of Report Data

Identify the contracts and specific reports selected for evaluation and describe the scope of audit to be performed.

Contract No.	Type(s) of Reports Required	Report Period	Scope of Audit

REVIEWER'S APPROVAL AND DATE:

B (2/3)

(Reviewer's Approval)

Auditor:	
Date:	

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OTHER REVIEWER AND DATE: _____
(If Applicable)

Auditor:	
Date:	

[Contractor Name]
[City, ST]

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1. Internal Control Audit Planning Summaries

For each system where an internal control audit has been performed, document in the table below the assessed level of substantive testing for the “contract reporting” audit area from Section IV of the most current Internal Control Audit Planning Summaries (ICAPS).

		Level of Substantive Testing			Lead W/P Reference(s)
		<u>Minimum</u>	<u>Increased</u>	<u>N/A</u>	
1.	Control Environment				
2.	General IT System				
3.	Budget and Planning System				
4.	Purchasing System				
5.	Material System				
6.	Compensation System				
7.	Labor System				
8.	Indirect and ODC System				
9.	Billing System				
10.	Estimating System				

2. System Deficiencies Impacting The Scope of Audit

For each system where increased testing for “contract reporting” is documented in Section IV of the ICAPS, document the specific system deficiencies and their potential impact on this audit. For example, document the impact of a system deficiency on the nature and extent of testing required of the contractor’s policies and procedures for preparation of CPRs, C/SSRs, and CFSRs; and the impact on the nature and extent of testing of report data necessary to determine the impact of the internal control deficiency on specific contracts. If applicable internal controls covering certain areas under the audit have not been reviewed and tested for operational effectiveness, control risk must be assessed at the maximum, and an increase in substantive testing for those areas should be planned accordingly.

B-2 (1/1)

Auditor:	
Date:	

Enclosure 4

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1. Review of Internal Controls and Assessment of Control Risk

a. Refer to the Internal Control Questionnaire (ICQ) or other permanent file documents to gain an understanding of the relevant contractor systems. Document below completion of this step by providing specific reference to (or hyperlink) information reviewed. If completion of an ICQ is not required (CAM 5-111.1a) and the significant and relevant internal controls, if any, are not documented in the ICQ or permanent file, you must gain an understanding of these internal controls and document it briefly below. This documentation should include a reference to (or documentation of) the contractor's policies and procedures, if any, for (1) estimating, (2) identifying and segregating unallowable costs and directly associated costs, and (3) excluding such costs from contract cost reports submitted to the government. If applicable internal controls have not been reviewed and sufficiently tested for operational effectiveness, control risk must be assessed at the maximum (CAM 5-102a and 5-111).

<input type="checkbox"/> Maximum Control Risk	<input type="checkbox"/> Below Maximum Control Risk
<i>Control risk is assessed at maximum because (i) it is more efficient to perform substantive testing than perform tests of internal controls or (ii) the internal controls are ineffective or nonexistent.</i>	<i>(Control risk can only be assessed below maximum if significant internal controls have been reviewed and sufficiently tested for operational effectiveness. If control risk is assessed below maximum, document/reference below the audit assignment where the tests of controls were performed that supports the assessment.)</i>

b. Is the contractor's submission supported by data from computer-based systems on which you will significantly rely to reach your conclusion?

Yes ☐

No ☐

If yes, document or reference below one or more of the following: (1) where the reliability of the data was sufficiently established in other DCAA audits (e.g., floor checks or incurred cost audits) or by other non-DCAA auditors (CAM 4-1000), (2) the audit procedures being performed in this audit to evaluate the contract cost reports that will also support reliance on the evidential matter, and/or (3) the tests that will be performed in this audit that will be specifically designed to test the reliability of the computer based data. When sufficient work is not performed to determine reliability (i.e., reduce audit risk to an acceptable level), qualify the audit in accordance with CAM 10-210.4 and 10-1204.4.

B-2 (1/1)

Auditor:	
Date:	

Enclosure 5